

106TH CONGRESS  
2D SESSION

# S. 2555

To amend the Internal Revenue Code of 1986 to exclude from gross income of individual taxpayers discharges of indebtedness attributable to certain forgiven residential mortgage obligations.

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## IN THE SENATE OF THE UNITED STATES

MAY 15, 2000

Mr. KERREY (for himself and Mr. HATCH) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to exclude from gross income of individual taxpayers discharges of indebtedness attributable to certain forgiven residential mortgage obligations.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Mortgage Cancellation  
5       Relief Act of 2000”.

1 **SEC. 2. EXCLUSION FROM GROSS INCOME FOR CERTAIN**  
 2 **FORGIVEN MORTGAGE OBLIGATIONS.**

3 (a) IN GENERAL.—Paragraph (1) of section 108(a)  
 4 of the Internal Revenue Code of 1986 (relating to exclu-  
 5 sion from gross income) is amended by striking “or” at  
 6 the end of both subparagraphs (A) and (C), by striking  
 7 the period at the end of subparagraph (D) and inserting  
 8 “, or”, and by inserting after subparagraph (D) the fol-  
 9 lowing new subparagraph:

10 “(E) in the case of an individual, the in-  
 11 debtedness discharged is qualified residential in-  
 12 debtedness.”.

13 (b) QUALIFIED RESIDENTIAL INDEBTEDNESS  
 14 SHORTFALL.—Section 108 of such Code (relating to dis-  
 15 charge of indebtedness) is amended by adding at the end  
 16 the following new subsection:

17 “(h) QUALIFIED RESIDENTIAL INDEBTEDNESS.—

18 “(1) LIMITATIONS.—The amount excluded  
 19 under subparagraph (E) of subsection (a)(1) with  
 20 respect to any qualified residential indebtedness  
 21 shall not exceed the excess (if any) of—

22 “(A) the outstanding principal amount of  
 23 such indebtedness (immediately before the dis-  
 24 charge), over

25 “(B) the sum of—

1 “(i) the amount realized from the sale  
 2 of the real property securing such indebt-  
 3 edness reduced by the cost of such sale,  
 4 and

5 “(ii) the outstanding principal amount  
 6 of any other indebtedness secured by such  
 7 property.

8 “(2) QUALIFIED RESIDENTIAL INDEBTED-  
 9 NESS.—

10 “(A) IN GENERAL.—The term ‘qualified  
 11 residential indebtedness’ means indebtedness  
 12 which—

13 “(i) was incurred or assumed by the  
 14 taxpayer in connection with real property  
 15 used as the principal residence of the tax-  
 16 payer (within the meaning of section 121)  
 17 and is secured by such real property,

18 “(ii) is incurred or assumed to ac-  
 19 quire, construct, reconstruct, or substan-  
 20 tially improve such real property, and

21 “(iii) with respect to which such tax-  
 22 payer makes an election to have this para-  
 23 graph apply.

24 “(B) REFINANCED INDEBTEDNESS.—Such  
 25 term shall include indebtedness resulting from

the refinancing of indebtedness under subparagraph (A)(ii), but only to the extent the refinanced indebtedness does not exceed the amount of the indebtedness being refinanced.

“(C) EXCEPTIONS.—Such term shall not include qualified farm indebtedness or qualified real property business indebtedness.”.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (2) of section 108(a) of such Code is amended—

(A) in subparagraph (A) by striking “and (D)” and inserting “(D), and (E)”, and

(B) by amending subparagraph (B) to read as follows:

“(B) INSOLVENCY EXCLUSION TAKES PRECEDENCE OVER QUALIFIED FARM EXCLUSION; QUALIFIED REAL PROPERTY BUSINESS EXCLUSION; AND QUALIFIED RESIDENTIAL SHORTFALL EXCLUSION.—Subparagraphs (C), (D), and (E) of paragraph (1) shall not apply to a discharge to the extent the taxpayer is insolvent.”.

(2) Paragraph (1) of section 108(b) of such Code is amended by striking “or (C)” and inserting “(C), or (E)”.

1           (3) Subsection (c) of section 121 of such Code  
2           is amended by adding at the end the following new  
3           paragraph:

4           “(4) SPECIAL RULE RELATING TO DISCHARGE  
5           OF INDEBTEDNESS.—The amount of gain which  
6           (but for this paragraph) would be excluded from  
7           gross income under subsection (a) with respect to a  
8           principal residence shall be reduced by the amount  
9           excluded from gross income under section  
10          108(a)(1)(E) with respect to such residence.”.

11          (d) EFFECTIVE DATE.—The amendments made by  
12          this section shall apply to discharges after the date of the  
13          enactment of this Act.

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